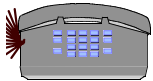
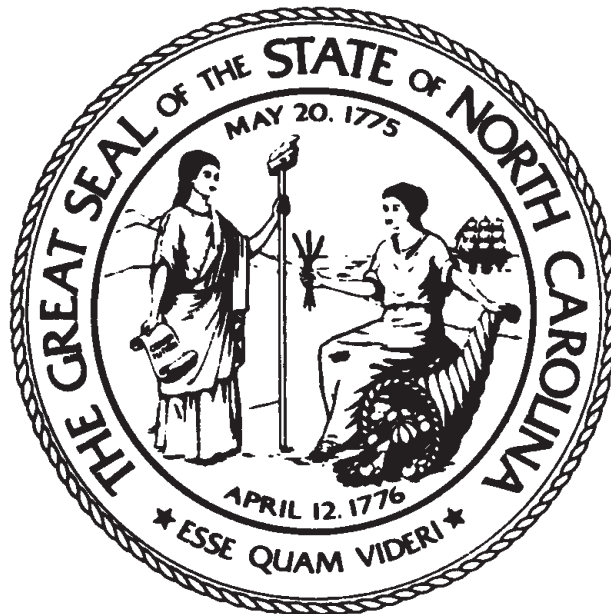


NORTH CAROLINA  
**1997**  
Individual Income Tax  
Forms and Instructions



NC TAX TALK Call us 24 hours a day, 7 days a week at (919) 733-4TAX to get recorded information on over 40 income tax topics.



Get your refund within three weeks by filing your return electronically.  
(See "The Income Tax Return" on page 4)

MAILING ADDRESSES

If you are due a refund: → N.C. Department of Revenue  
P.O. Box R  
Raleigh, N.C. 27634-0001

If you are not due a refund: → N.C. Department of Revenue  
P.O. Box 25000  
Raleigh, N.C. 27640-0640

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### IMPORTANT LAW CHANGES FOR 1997

**EXTENSIONS** - You do not have to pay the tax you expect to owe with a request for extension for the extension of time to be granted. (See page 4)

#### **TAX CREDITS -**

- A tax credit for charitable contributions is allowed to taxpayers who claim the standard deduction on their federal return. The credit is equal to 2 3/4 percent of the amount by which your contributions for the year exceed 2 percent of your federal adjusted gross income. (See page 12)
- The maximum credit for donating real property for conservation purposes is increased from \$25,000 to \$100,000. Consequently, the maximum addition to federal taxable income for donating real property for conservation purposes is increased from \$100,000 to \$400,000.
- Business Incentives (See page 12)

**CLAIM OF RIGHT** - Effective retroactively to taxable years beginning on or after January 1, 1995, State law conforms to the Internal Revenue Code with respect to the tax treatment of a substantial amount of income that an individual receives under a claim of right but later restores. (See page 6)

**FEDERAL RETIREES** - Relief is provided to federal retirees and their surviving spouses for unused portions of tax credits allowable for tax paid on certain federal retirement benefits. (See page 11)

**WITHHOLDING** - (Contact the Department or your employer regarding details on the following information.)

- Wages paid by a farmer for farm labor is now subject to withholding of State income taxes to the same extent it is subject to withholding of federal income taxes.
- Effective January 1, 1998, State income tax is required to be withheld from non-wage compensation paid to nonresident contractors who perform certain personal services in North Carolina.

#### IMPORTANT NOTICE REGARDING SUBSTITUTE RETURNS

If you file a computer-generated substitute tax return in lieu of the Department's form, the substitute must be identical to the original return. Substitute forms that cannot be processed in the same manner as the Department's forms will be returned to the preparer or to the taxpayer with instructions to refile on an acceptable form.

### INSTRUCTIONS FOR FILING FORM D-400

The information contained in this booklet is to be used as a guide in the preparation of a North Carolina individual income tax return and is not intended to cover all provisions of the law.

#### IMPORTANT

Because taxable income from your federal income tax return (Form 1040, 1040A, 1040EZ, or TeleFile Tax Record ) is the starting point for preparing your North Carolina income tax return, you must first complete your federal return before beginning your North Carolina return. You must include a copy of your federal return with your North Carolina return unless your federal return reflects a North Carolina address.

#### FEDERAL PRIVACY ACT NOTICE

Disclosing your social security number on your return is required by regulations issued by the Secretary of Revenue under G.S.105-152, 155, 251 and 252. Social security numbers are used to identify individuals in the administration of the State's tax laws and to exchange tax information with other states and the Internal Revenue Service. Always list your social security number on any attachments to your return and on any correspondence to the Department of Revenue.

**FILING REQUIREMENTS**

The minimum gross income filing requirements under North Carolina law are different from the filing requirements under the Internal Revenue Code because North Carolina law does not adjust the standard deduction and personal exemption for inflation as required by the Internal Revenue Code.

Who is required to file a North Carolina individual income tax return?

- Every resident of North Carolina whose income for the taxable year equals or exceeds the amount for his filing status shown in Chart A or B below.
- Every part-year resident who received income while a resident of North Carolina or who received income while a nonresident attributable to the ownership of any interest in real or tangible personal property in North Carolina or derived from a business, trade, profession or occupation carried on in North Carolina and whose total income for the taxable year equals or exceeds the amount for his filing status shown in Chart A or B below.
- Every nonresident who received income for the taxable year from North Carolina sources that was attributable to the ownership of any interest in real or tangible personal property in North Carolina or derived from a business, trade, profession, or occupation carried on in North Carolina and whose total income from all sources both inside and outside of North Carolina equals or exceeds the amount for his filing status shown in Chart A or B below.
- If you had North Carolina income tax withheld during 1997 but your income is below the amount required for filing, as shown in Chart A or B below, you must still file a return to receive a refund of the tax withheld.

If you were not required to file a federal income tax return but your gross income from all sources both inside and outside of North Carolina equals or exceeds the amount for your filing status shown in Chart A or B, you must complete a federal return and attach it to your North Carolina income tax return to show how your negative federal taxable income was determined.

If you are married, you and your spouse must file a joint return if:

- You filed a joint federal income tax return, and
- Both you and your spouse were residents of North Carolina or both of you had North Carolina taxable income.

All other individuals must file separate returns.

When filing a joint return, include the name and social security number of each spouse on the return.

If you filed a joint federal income tax return but file a separate North Carolina return, you must complete either a separate federal return reporting only your income, exemptions, and deductions, or a schedule showing the computation of your separate federal taxable income and attach it to your North Carolina return. You must also include a copy of your joint federal return unless your federal return reflects a North Carolina address. Both spouses are jointly and severally liable for the tax due on a joint return unless one spouse has been relieved of any liability for federal income tax purposes as a result of the "innocent spouse" rules provided under Internal Revenue Code Section 6013.

**CHART A — FOR MOST TAXPAYERS** (See Chart B for children and other dependents)

<u>FILING STATUS</u>		<u>A RETURN IS REQUIRED</u> <u>IF GROSS INCOME EXCEEDS</u>
(1)	Single .....	\$5,500
	Single (age 65 or over) .....	\$6,250
(2)	Married - Filing Joint Return .....	\$10,000
	Married - Filing Joint Return (one age 65 or over) .....	\$10,600
	Married - Filing Joint Return (both age 65 or over) .....	\$11,200
(3)	Married - Filing Separate Return .....	\$2,500
(4)	Head of Household .....	\$6,900
	Head of Household (age 65 or over) .....	\$7,650
(5)	Qualifying Widow(er) with dependent child .....	\$7,500
	Qualifying Widow(er) (age 65 or over) .....	\$8,100

**FILING REQUIREMENTS FOR CHILDREN AND OTHER DEPENDENTS**

If another person (such as your parent) can claim you as a dependent on their federal income tax return, use Chart B below to see if you must file a North Carolina income tax return.

**CHART B — FOR CHILDREN AND OTHER DEPENDENTS**

<p>1. Single dependents under 65 must file a return if-</p> <p>Your unearned income was:                      and                      the total of that income plus your earned income was:</p> <hr/> <p>\$1 or more    more than \$500</p> <hr/> <p>\$0    more than \$3,000</p>	<p>3. Married dependents under 65 must file a return if -</p> <ul style="list-style-type: none"> <li>● Your earned income was more than \$2,500, or</li> <li>● You had any unearned income and your gross income was more than \$500, or</li> <li>● Your gross income was at least \$5 and your spouse files a separate federal income tax return on Form 1040 and itemizes deductions.</li> </ul> <p>4. Married dependents 65 or older or blind must file a return if -</p> <ul style="list-style-type: none"> <li>● Your earned income was more than \$3,100, or</li> <li>● Your unearned income was more than \$1,100 (\$1,700 if 65 or older and blind), or</li> <li>● Your gross income was more than the total of your earned income (up to \$2,500), or \$500, whichever is larger, plus \$600 (\$1,200 if 65 or older and blind), or</li> <li>● Your gross income was at least \$5 and your spouse files a separate federal income tax return on Form 1040 and itemizes deductions.</li> </ul>
<p>2. Single dependents 65 or older or blind must file a return if-</p> <ul style="list-style-type: none"> <li>● Your earned income was more than \$3,750, or</li> <li>● Your unearned income was more than \$1,250 (\$2,000 if 65 or older and blind), or</li> <li>● Your gross income was more than the total of your earned income (up to \$3,000) or \$500, whichever is larger, plus \$750 (\$1,500 if 65 or older and blind)</li> </ul>	
<p>Unearned income includes taxable interest, dividends, capital gains, pensions, annuities, and social security benefits.                      Earned Income includes salaries, wages, tips, professional fees, scholarships that must be included in income, and other compensation received for personal services.</p>	

## The Income Tax Return

File your income tax return on Form D-400 or Form D-400EZ. Be sure to read the instructions on page 2 of Form D-400EZ to determine if you may file this form. If you are a part-year resident or a nonresident you must use Form D-400. Be sure to read the section entitled INFORMATION FOR PART-YEAR RESIDENTS AND NONRESIDENTS.

**Filing Your Return Electronically:** Even if you prepare your own income tax return, an electronic filer in your area can file your federal and State income tax returns electronically for a fee. To locate an electronic filer near you, consult your local telephone directory.

If you file your federal and State income tax returns electronically, you should receive your State refund within 3 weeks from the date we receive and acknowledge that your federal and State returns have been received. Your return can be electronically filed if it is a zero balance, balance due, or refund return.

### When to File

If you file your return on a calendar year basis, it is due on or before April 15 of the following year. A fiscal year return is due on the 15th day of the 4th month following the end of the taxable year. When the due date falls on a Saturday, Sunday, or holiday, the return is due on or before the next business day. A fiscal year return should be filed on a tax form for the year in which the fiscal year begins (For example: A 1997 tax form should be used for a fiscal year beginning in 1997).

### Extensions

If you cannot file your return by the due date, you may apply for an automatic 6-month extension of time to file the return. To receive the extension, you must file Form D-410, Application for Automatic Six-Month Extension of Time to File State Income Tax Return, by the original due date of the return. You should apply for an extension even if you believe you will be due a refund but cannot file by the due date. In lieu of filing Form D-410, an automatic 6-month extension of time to file your North Carolina return will be granted if you file Federal Form 4868, Application for Automatic Extension of Time, (Federal Form 2350 if you are a U.S. citizen or resident alien abroad and you expect to qualify for special tax treatment) with the Internal Revenue Service, provided you submit to the Department of Revenue a copy of the completed Form 4868 by the original due date of the return. When filing a copy of Form 4868 in lieu of Form D-410, you must clearly state that the form is for North Carolina; mark through the federal amounts shown on the form; and enter the applicable amounts for North Carolina.

You are not required to send a payment of the tax you estimate as due; however, it will benefit you to pay as much as you can with the extension request. An extension of time for filing the return does not extend the time for paying the tax. If you do not pay the amount due by the original due date, you will

owe a 10 percent late payment penalty and interest. The late payment penalty will not be due if you pay at least 90 percent of your tax liability through withholding, estimated tax payments, or with Form D-410 (or Federal Form 4868 if filed in lieu of Form D-410) by the original due date.

A late filing penalty may be assessed if your return is filed after the due date (including extensions). The penalty is 5 percent per month (\$5 minimum; 25 percent maximum) on the remaining tax due.

If you do not file the application for extension by the original due date of the return, you are subject to both a late filing penalty and a late payment penalty.

The penalties will also apply if your extension is not valid. An application for extension is not valid if the amount entered on Form D-410 or Federal Form 4868 as the tax expected to be due is not properly estimated.

If you are living outside the United States or Puerto Rico, or if you are in the military stationed outside the United States or Puerto Rico, you are granted an automatic 2-month extension for filing your North Carolina return if you attach a statement showing that you were living outside the United States or Puerto Rico on the date the return was due. The time for payment of the tax is also extended; however, interest is due on any unpaid tax from the original due date of the return until the tax is paid. If you are unable to file the return within the automatic 2-month extension period, an additional 4-month extension may be obtained by following the provisions in the first paragraph of this section; however, Form D-410 or Federal Form 4868 must be filed by the automatic 2-month extended date of June 15.

### Where to Get Forms and Assistance

Forms may be obtained from any of the Department's offices. You may also obtain forms by calling (919) 715-0397.

If you are disabled, have a low income, or are a senior citizen, income tax returns can be prepared free of charge through the VITA (Volunteer Income Tax Assistance)/TCE (Tax Counseling for the Elderly) programs. For location and dates of assistance, taxpayers in North Carolina can call the Internal Revenue Service toll-free, 1-800-829-1040, weekdays. State income tax questions should be directed to the nearest office of the North Carolina Department of Revenue or you may call us at (919) 733-4684, 8:00 a.m. to 5:00 p.m., Monday through Friday, except holidays.

For recorded information on over 400 tax topics, call (919) 733-4TAX. (See page 20.)

### General Refund Information

If you owe another State agency, the amount you owe may be deducted from your refund. You will be notified by the agency before this action is taken. If you file a joint tax return and your spouse owes another State agency, your portion of the refund will not be applied to your spouse's debt; however, your refund will not be processed until the claim against your spouse has been settled.

If you have an outstanding federal income tax liability, the Internal Revenue Service

may claim your North Carolina refund.

### Need to Call Us About Your Refund?

The automated refund inquiry line will give you the status of your 1997 refund. Touch-tone service is available from 5:00 a.m. to 12:00 midnight seven days a week; rotary service from 8:00 a.m. to 5:00 p.m. Monday through Friday, except holidays.

The Department writes refund checks once a week. If you are informed that your check has not been written, please wait 7 days before calling back. You will need the first social security number shown on your return when you call.

#### Automated Refund Inquiry Line - (919) 733-4682

Date Return Filed	* Before Calling Please Allow
January and February	..... 8 weeks
March	..... 10 weeks
April	..... 12 weeks

All Electronically Filed Returns 4 weeks

\* Additional time is required if you owe a State agency or the IRS, or if your return contains an error.

### Estimated Income Tax

You are required to pay estimated income tax if the tax shown due on the return, reduced by the North Carolina tax withheld and allowable tax credits, is \$1,000 (\$500 before tax year 1998) or more regardless of the amount of income you have that is not subject to withholding. Each payment of estimated tax must be accompanied by Form NC-40, North Carolina Estimated Income Tax for Individuals. If you paid estimated tax for 1997, forms for filing and paying your estimated tax for 1998 will be included in a pre-addressed forms packet mailed to you in February, 1998. If you fail to receive a forms packet or if you are filing estimated tax for the first time, contact any of our offices so that appropriate forms can be mailed to you.

You should prepare your estimated tax carefully, both to avoid having to pay a large amount of tax when you file your return, and to avoid the penalty for underpayment of estimated income tax. Payment of estimated tax does not relieve you of your responsibility for filing a return if one is due.

### Amended Returns, Statute of Limitations, and Demands for Refunds

You may amend your return by filing an amended return, Form D-400X. To receive a refund, your amended return must be filed within three years from the date the original return was due or within six months of the date the tax was paid, whichever date is later. However, special rules extending the time for filing refund claims beyond the normal three-year statute of limitations apply to overpayments attributable to (1) worthless debts or securities, (2) capital loss carrybacks, or (3) net operating loss carrybacks. For overpayments resulting from worthless debts or securities, the period of time for demanding an overpayment is seven years; for overpayments

resulting from capital loss or net operating loss carrybacks, the period of time is three years from the due date of the return for the year in which the loss was incurred instead of three years from the due date of the return for the year to which the loss is carried back.

Amended returns on which you owe additional tax are required to be filed and the tax paid within three years after the date on which the original return was filed or within three years from the date required by law for filing the return, whichever is later.

If changes are made to your federal return by the Internal Revenue Service, you must report the changes to the State by filing an amended return within two years from the date the report is received. If you do not amend your State return to reflect the federal changes and the report is received from the Internal Revenue Service, an assessment may be made by the Department of Revenue within three years from the date of receipt of the report, and you forfeit your right to any refund which might have been due by reason of the changes. Income taxes levied under an unconstitutional statute ("unlawful taxes") or taxes imposed illegally may not be refunded unless you make a demand for the refund within one year of the payment of the taxes.

### Penalties and Interest

**Failure to file penalty.** Returns filed after the due date are subject to a penalty of 5 percent of the tax for each month, or part of a month, the return is late (minimum \$5.00; maximum 25 percent of the additional tax). If you file your return late, figure the amount of the penalty and add it to the tax due.

**Failure to pay penalty.** Returns filed after April 15 without a valid extension are subject to a late-payment penalty of 10 percent of the unpaid tax. If you have an extension of time for filing your return, the 10 percent penalty will apply on the remaining balance due if the tax paid by the due date of the return is less than 90 percent of the total amount of tax due. If the 90 percent rule is met any remaining balance due, including interest, must be paid with the return before the expiration of any extension period to avoid the late-payment penalty. The minimum penalty is \$5.00. If your payment is late, figure the amount of the penalty and add it to the tax due.

The late-payment penalty will not be assessed if the amount shown due on an amended return is paid with the return. Proposed assessments of additional tax due are subject to the 10 percent late-payment penalty if payment of the tax is not received within 30 days of the assessment.

**Other penalties.** There are additional penalties for negligence, underpayment of estimated income tax and fraud. Criminal penalties also apply for fraud with intent to evade or defeat the tax and for willful failure to file a return, supply information or pay the tax. The penalty for underpayment of estimated income tax should be computed on Form D-422, Penalty for Underpayment of Estimated Tax by Individuals. The penalty will not apply if each of your payments equals 25 percent of the lesser of 90 percent (66 2/3 percent for farmers and fishermen) of the tax due on your current year's return or 100 percent of the tax due on your previous year's return. If the penalty is applicable, attach the completed form to your return, add the amount of the penalty to the tax due, and include the full payment with your return. If a refund is due, subtract the amount of the penalty from the refund.

**Interest.** Interest is due on tax not paid by April 15, even though you may have an extension of time for filing your return. You may obtain the current interest rate from any of the Department's offices. If you pay your tax late, figure the amount of interest due and include it with the tax and any applicable penalty.

### Rounding Off to Whole Dollars

Round off to the nearest whole dollar on your return and schedules. You should drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.39 becomes \$1.00 and \$2.69 becomes \$3.00.

### N.C. Political Parties Financing Fund

You may designate \$1.00 of the tax you pay to be distributed to political parties in North Carolina on a pro-rata basis according to the party voter registration. (Married couples filing a joint return may make a designation only if their income tax liability is \$2.00 or more.) No political party with less than 1 percent of the total number of registered voters in the State will receive any of the designated funds.

### United States Armed Forces Pay

If you are serving in the United States Armed Forces and your legal residence is North Carolina, you are liable for North Carolina income tax and North Carolina income tax should be withheld from your pay regardless of where you may be stationed. If you are a legal resident of another state stationed in North Carolina on military orders, you are not liable for North Carolina income tax on your military pay, but other income from employment, a business, or tangible property in North Carolina is subject to North Carolina income tax.

### Death of the Taxpayer

If you are the spouse or personal representative of an individual who died prior to filing a return, you may be required to file a return on the decedent's behalf. Write "Deceased" across the top of the return.

An Income Tax Return for Estates and Trusts, Form D-407, must be filed for an estate for the period from the date of death to the end of the taxable year if the estate had taxable income from North Carolina sources or income which was for the benefit of a North Carolina resident and the estate is required to file a federal return for estates and trusts.

If you are filing a return for an unmarried individual who died during the year, write "Deceased" and the date of death after the individual's name on the return and follow with the name and address of the executor or administrator. When filing a separate return of a decedent who was married at the time of death, write "Deceased" and the date of death after the name and enter the name and address of the surviving spouse.

If you are a court-appointed representative, you MUST attach to the return a copy of the certificate that shows your appointment.

A refund due on a return filed for a deceased taxpayer by a person other than a surviving spouse or a court-appointed representative will be mailed to the Clerk of Superior Court of the county in which the taxpayer resided.

## INFORMATION FOR PART-YEAR RESIDENTS AND NONRESIDENTS

If you move your legal residence into or out of North Carolina during the tax year, you are a resident of two different states during two different periods of the tax year.

You are a nonresident if you maintain your legal residence in another state or country even though you may temporarily reside in North Carolina. If you reside in North Carolina for more than 183 days of a tax year, you are presumed to be a resident for income tax purposes in the absence of factual proof of residence in another state.

If you filed a joint federal return but cannot file a joint North Carolina return because your spouse is a nonresident and had no North Carolina taxable income, you must calculate your federal taxable income as a married person filing a separate federal return.

Complete either a separate federal return reporting only your income, exemptions, and deductions, or a schedule showing the computation of your separate federal taxable income and attach it to your North Carolina return. You must also include a copy of your joint federal return unless your federal return reflects a North Carolina address.

Part-year residents and nonresidents receiving income from North Carolina sources must determine the portion of their federal taxable income that is subject to North Carolina income tax by completing lines 42 through 46 on page 2 of Form D-400. See the instructions for lines 42 through 46 on page 10.

A part-year resident receiving partnership income from a partnership doing business in

North Carolina and in one or more other states, must prorate his share of the partnership's income attributable and not attributable to North Carolina between his periods of residence and nonresidence in accordance with the number of days in each period. Include on line 42 the taxpayer's share of partnership income determined for the period of residence. Include on line 43 the taxpayer's share of the partnership income attributable to North Carolina during the period of nonresidence.

If you have income from sources within another state or country while you are a resident of North Carolina and the other state or country taxes you on such income, you may be eligible to claim a tax credit on your North Carolina return, Form D-400. See the section entitled "Information for Claiming Tax Credits" on page 11 for additional information.

LINE INSTRUCTIONS FOR FORM D-400

The references to line numbers on federal income tax forms were correct at the time of printing. If they have changed and you are unable to determine the proper line to use, please contact the Department of Revenue.

**Lines 1 through 5 - FILING STATUS**

Check the same filing status you checked on your federal return. **IMPORTANT:** If either you or your spouse is a nonresident and your spouse had no North Carolina taxable income for the tax year, you must check **MARRIED FILING SEPARATELY** and submit a complete separate federal return or a schedule showing the computation of your separate federal taxable income and attach it to your North Carolina return.

**Line 6 - FEDERAL TAXABLE INCOME**

Enter your federal taxable income from your federal return or Telefile Tax Record.

If federal taxable income is zero or less, you were required to enter zero on your federal return. On your North Carolina return enter the negative number and enclose it in brackets. For example, negative taxable income of \$5,000 would be entered as [5,000].

**Lines 11a and 11b - NORTH CAROLINA TAXABLE INCOME**

- If you were a resident of North Carolina for the entire year, enter the amount from line 10 on line 11b.
- If you were a part-year resident or a nonresident you must complete lines 42 through 46 and enter on line 11a the decimal amount from line 46. Multiply the amount on line 10 by the decimal amount on line 11a and enter the result on line 11b.

Part-year residents and nonresidents should read the instructions on page 5 for additional information and complete the applicable worksheets on page 10.

**Line 12 - NORTH CAROLINA INCOME TAX**

To figure your tax, use one of the following methods:

**Tax Table.** Use the Tax Table beginning on page 13 to determine your tax if your taxable income on line 11b is less than \$50,000. Be sure to use the correct column in the Tax Table. After you have found the correct tax, enter that amount on line 12.

**Tax Rate Schedule.** Use the Tax Rate Schedule on page 19 to figure your tax if your taxable income is \$50,000 or more. Enter the amount on line 12.

**Lines 13a and 13b - NORTH CAROLINA INCOME TAX WITHHELD**

Enter your North Carolina tax withheld on line 13a. If you are married and you file a joint return, enter your North Carolina withholding on line 13a and your spouse's withholding on line 13b. Do not include any income tax withheld by a state other than North Carolina or any other tax amounts that were withheld.

Be sure to attach the original State copies of

your wage and tax statements that you received from your employer, Forms W-2 or NC-2, to your return. Wage and tax statements generated by tax software programs cannot be used to verify North Carolina tax withholding.

**Line 14 - OTHER TAX PAYMENTS**

**a - 1997 Estimated Tax** - Enter any estimated income tax payments for 1997 (including any portion of your 1996 refund that was applied to your 1997 estimated income tax). See page 4 for additional information about estimated income tax.

**b - Paid with Extension** - If you filed an automatic extension of time, enter the amount of North Carolina income tax paid with the extension.

**c - Partnership** - If you are a nonresident partner, enter your share of the tax paid to North Carolina by the manager of the partnership on your distributive share of the partnership income. Include with your return a copy of the information furnished by the partnership to verify the amount claimed.

**d - S Corporation** - If you are a nonresident shareholder of an S corporation, enter your share of the income tax paid to North Carolina by an S corporation on your distributive share of the S corporation income. Include with your return a copy of the information furnished to you by the S corporation to verify the amount claimed.

**Claim-of-right payment** - If you had to repay an amount of income that you included in your income in an earlier tax year, you may be entitled to a tax credit on your federal return under Section 1341 of the Internal Revenue Code. If you are entitled to a federal credit, you may also be entitled to similar relief on your North Carolina return. Call the Department of Revenue for more information. If you determine that you are entitled to a claim-of-right payment, the amount of the payment should be included in the amount entered on line 14d. You must include a separate schedule to show how the payment was determined.

**Line 15 - TAX CREDITS**

See page 11 for information about tax credits. Complete Form D-400TC - Tax Credits if you are entitled to one or more of the credits.

**Line 17a through 17c - TAX, PENALTIES, AND INTEREST**

**a** - If line 12 is more than line 16, you owe additional tax. Subtract line 16 from line 12 and enter the result on line 17a.

**b - Underpayment of Estimated Income Tax Penalty and exceptions to the penalty** - You may owe a penalty if you underpaid your estimated tax for any payment period. You will not owe the penalty if you had no tax liability in the prior year or if this year's tax liability, less any amount withheld, is less than \$500. Nor will you owe the penalty if you are a farmer or fisherman and pay the tax due by March 1, 1998. Complete Form D-422 to see if you owe the penalty. Enter the penalty on line 17b. The penalty will increase your tax liability or reduce your overpayment.

Exceptions to the Penalty:

- Enter an "F" in the box labeled Exceptions to the Penalty if you are a farmer or fish-

erman. You are a farmer or fisherman if you received at least two-thirds of your gross income for the year from farming and fishing.

- Enter an "A" in the box if you completed Form D-422A, Annualized Income Installment Worksheet, in determining the amount to enter on line 17b.

**c - Other penalties and Interest** - See "Penalties and Interest" on page 5 to determine if any other penalties apply to you or if you owe interest.

**Line 18 - PAY THIS AMOUNT**

Add lines 17a, 17b, and 17c and enter the total on line 18. This is the total tax, penalties, and interest due. Mail your return and payment to the North Carolina Department of Revenue, P. O. Box 25000, Raleigh, North Carolina 27640-0640. If you owe less than \$1.00 you do not have to pay the tax, but you must still file the return. You may pay your tax by check or money order, payable to North Carolina Department of Revenue or by cash at any of the Department's offices. Do not send cash by mail.

**Line 19 - OVERPAYMENT**

If line 16 is more than line 12, you have overpaid your tax. Subtract line 12 (and any amount shown on line 17b) from line 16 and enter the amount of the overpayment on line 19.

**Line 20 - ESTIMATED INCOME TAX**

If you have overpaid the tax you may elect to have your refund (at least \$1.00 or more) applied to your estimated tax for the following year by entering the amount to be applied on line 20. The election cannot be changed after you file your return. The last allowable date for making a 1998 estimated tax payment is January 15, 1999; therefore, to apply a portion of your refund to 1998 estimated tax you must file your 1997 return by January 15, 1999.

**Line 21 - N.C. NONGAME AND ENDANGERED WILDLIFE FUND**

If you are due a refund of \$1.00 or more, you may elect to contribute all or any portion of the refund to the North Carolina Nongame and Endangered Wildlife



Fund. Your donations provide most of the funds for conservation of our endangered species and native backyard wildlife.

If you wish to contribute to the fund, enter the amount of your contribution on line 21. Your election to contribute to the fund cannot be changed after you file your return. If you are not due a refund, you may still contribute to this program by mailing your donation directly to the North Carolina Wildlife Resources Commission, 512 N. Salisbury Street, Raleigh, North Carolina 27604-1188. Checks should be made payable to the Nongame & Endangered Wildlife Fund.

**Line 22 - NORTH CAROLINA CANDIDATES FINANCING FUND**

If you are due a refund of \$1.00 or more, you may elect to contribute all or any portion of your refund to the North Carolina Candidates Financing Fund.

## LINE INSTRUCTIONS

The Fund was created to encourage candidates for Governor to limit their campaign spending, as well as to provide them with an alternative to raising money from special interests. The contributions you make from your refund will be placed in the Fund.

If you are due a refund and you wish to make a contribution, enter the amount on line 22 of your return. Your election to contribute to the fund is irrevocable and cannot be changed after you file your return. If you are not due a refund, you may still contribute to this Fund by mailing your donation to the State Board of Elections, P.O. Box 2169, Raleigh, North Carolina 27602-2169. Checks should be made payable to The North Carolina Candidates Financing Fund.

### Line 24 - AMOUNT TO BE REFUNDED

If you are due a refund, mail your return to the North Carolina Department of Revenue, P.O. Box R, Raleigh, North Carolina 27634-0001. A refund of less than \$1.00 will not be made unless you request it on a separate statement attached to your return.

### ADJUSTMENTS TO FEDERAL TAXABLE INCOME (Lines 25-41)

You must make certain adjustments to your federal taxable income (line 6) in arriving at your North Carolina taxable income (line 11b). The law may require other adjustments that are not included in these instructions. Follow the line instructions below to determine the adjustments that apply to you.

#### ADDITIONS TO FEDERAL TAXABLE INCOME

Federal law requires that the federal standard deduction and personal exemption be increased each year if necessary for inflation. North Carolina law, however, does not have a similar provision.

If you claimed the standard deduction on your federal return, you must add to your federal taxable income the difference in the standard deduction for federal and State income tax purposes in figuring your North Carolina taxable income.

If you itemized deductions on your federal return, you must add to your federal taxable income the amount of any state and local income taxes claimed as deductions on your federal return to the extent your itemized deductions exceed the standard deduction without the federal inflation adjustment.

You must also increase your federal taxable income by the difference in the personal exemption for federal and State income tax purposes.

### Line 26

Use the chart or worksheet on this page that applies to you to figure your standard deduction. Enter the applicable amount on line 26 of Form D-400 or line 2 of STANDARD DEDUCTION/PERSONAL EXEMPTION WORKSHEET, page 2 of Form D-400EZ. **IMPORTANT:** If you are (1) married filing a separate return for federal income tax purposes and your spouse itemizes deductions, (2) a nonresident alien, or (3) filing a short-year return, you are not entitled to the standard deduction; therefore, enter 0 on line 26. Note: A short-year return is a return that is filed for a period covering less than twelve months. Short-year returns may be required as a result of changing accounting periods or because a taxpayer dies prior to the end of the accounting period. A short-year return does not relate to a taxpayer who files a return as a part-year resident.

### Line 27

Subtract line 26 from line 25 and enter the result (not less than zero). If you claimed the standard deduction on your federal return, skip line 28 and enter on line 29 the amount entered on line 27.

STANDARD DEDUCTION CHART FOR MOST PEOPLE DO NOT use this chart if you or your spouse were 65 or older or blind, OR if someone can claim you as a dependent.	
If your filing status is:	your standard deduction is:
Single	\$3,000
Married filing jointly/Qualifying widow(er)	\$5,000
Married filing separately	\$2,500
Head of household	\$4,400

STANDARD DEDUCTION CHART FOR PEOPLE AGE 65 OR OLDER OR BLIND If someone can claim you as a dependent, use the worksheet for dependents instead.			
Check if:	You were	65 or OLDER <input type="checkbox"/>	BLIND <input type="checkbox"/>
	Your spouse was	65 or OLDER <input type="checkbox"/>	BLIND <input type="checkbox"/>
Enter the number of boxes checked above <input style="width: 50px;" type="text"/>			
Note: If married filing separately, include the number of boxes checked for your spouse in the total number only if your spouse had no gross income and was not claimed as a dependent by another taxpayer.			

If your filing status is:	And the total number of boxes you have checked is:	Your standard deduction is:
Single	1	\$3,750
	2	\$4,500
Married filing jointly/Qualifying widow(er)	1	\$5,600
	2	\$6,200
	3	\$6,800
	4	\$7,400
Married filing separately	1	\$3,100
	2	\$3,700
	3	\$4,300
	4	\$4,900
Head of household	1	\$5,150
	2	\$5,900

STANDARD DEDUCTION WORKSHEET FOR DEPENDENTS Use this worksheet ONLY if someone can claim you as a dependent.	
1	Enter the amount of your earned income (defined below). If none, enter -0- 1. _____
2	Minimum amount ..... 2. <span style="float: right;">\$500</span>
3	Enter the larger of line 1 or line 2. .... 3. _____
4	Enter on line 4 the amount shown for your filing status <ul style="list-style-type: none"> <li>• Single, enter \$3,000</li> <li>• Married filing jointly/Qualifying widow(er), enter \$5,000</li> <li>• Married filing separately, enter \$2,500</li> <li>• Head of household, enter \$4,400 ..... 4. _____</li> </ul>
5	Enter the smaller of lines 3 or 4. (If UNDER 65 AND NOT BLIND, STOP HERE and enter this amount on line 26 of Form D-400 or line 2 of the STANDARD DEDUCTION/PERSONAL EXEMPTION WORKSHEET, page 2 of Form D-400EZ. .... 5. _____
6	<div style="margin-bottom: 10px;">                     a Check if: You were 65 or OLDER <input type="checkbox"/> BLIND <input type="checkbox"/>                      Your spouse was 65 or OLDER <input type="checkbox"/> BLIND <input type="checkbox"/> </div> b Enter the number of boxes you have checked <input style="width: 50px;" type="text"/> <small>Note: If married filing separately, include the number of boxes checked for your spouse in the total number checked only if your spouse had no gross income and was not claimed as a dependent by another taxpayer.</small>
	c Multiply \$750 (\$600 if married filing jointly or separately, or qualifying widow(er)) by the number of boxes you entered on line 6b above and enter the result ..... 6c. _____
7	Add lines 5 and 6c. Enter the total here and on line 26 of Form D-400 or line 2 of the STANDARD DEDUCTION/PERSONAL EXEMPTION WORKSHEET, page 2 of Form D-400EZ ... 7. _____
Earned income includes salaries, wages, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must report in income.	

# LINE INSTRUCTIONS

## Line 28

Enter the amount of the state and local income tax deduction you claimed on line 5 and any foreign income taxes included on line 8 of Federal Schedule A. If no state, local, or foreign income taxes were paid, enter zero.

**IMPORTANT:** If you were required to complete the Itemized Deductions Worksheet on page A-5 of the instructions for Federal Form 1040, complete the worksheet below to determine the amount to enter on line 28.

STATE INCOME TAX ADJUSTMENT WORKSHEET	
1	Enter the state and local income taxes from line 5 and any foreign income taxes included on line 8 of Schedule A, Federal Form 1040 ..... 1 _____
2	Enter the amount from line 3 of the Itemized Deductions Worksheet on page A-5 of the instructions for Federal Form 1040 ..... 2 _____
3	Divide line 1 above by line 2 above and enter the result as a decimal amount ..... 3 <u>    </u> ● _____
4	Enter the amount from line 9 of the Itemized Deductions Worksheet on page A-5 of the instructions for Federal Form 1040 ..... 4 _____
5	Multiply line 4 above by the decimal amount on line 3 above and enter the result here ..... 5 _____
6	Subtract line 5 above from line 1 above. Enter the result here and on line 28 of Form D-400 ..... 6 _____

## Line 30 PERSONAL EXEMPTION ADJUSTMENT WORKSHEETS

If your federal adjusted gross income (Form 1040, line 32; Form 1040A, line 16; Form 1040EZ, line 4; or Telefile Tax Record, line H) is less than the amount shown for your filing status in the chart below, complete Worksheet A. Otherwise, SKIP Worksheet A and complete Worksheet B. **IMPORTANT:** If you cannot claim a personal exemption on your federal return because it was completely phased out, do not complete either worksheet. Enter zero on line 30.

Filing Status	Adjusted Gross Income
Married, filing jointly	\$100,000
Head of Household	\$ 80,000
Single	\$ 60,000
Married, filing separately	\$ 50,000

<b>A</b>	<p>1 1040 or 1040A filers</p> <ul style="list-style-type: none"> <li>• Multiply the number of exemptions claimed on line 6d of 1040 or 1040A by \$150 and enter the result.</li> </ul> <p>1040EZ / TELEFILE SINGLE filers</p> <ul style="list-style-type: none"> <li>• Enter \$150 if you <u>cannot</u> be claimed as a dependent by someone else</li> <li>• Enter zero if you <u>can</u> be claimed as a dependent by someone else</li> </ul> <p>1040EZ / TELEFILE MARRIED FILING JOINTLY filers</p> <ul style="list-style-type: none"> <li>• Enter \$300 if neither spouse can be claimed as a dependent by someone else</li> <li>• Enter \$150 if one spouse can be claimed as a dependent by someone else</li> <li>• Enter zero if both spouses can be claimed as dependents by someone else</li> </ul> <p style="text-align: right; margin-right: 20px;">1 _____</p> <p>STOP HERE and enter this amount on line 30, page 2 of Form D-400.</p>
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<b>B</b>	<p>2 1040 or 1040A filers</p> <ul style="list-style-type: none"> <li>• Multiply the number of exemptions claimed on line 6d of 1040 or 1040A by \$650 and enter the result</li> </ul> <p>1040EZ / TELEFILE SINGLE filers</p> <ul style="list-style-type: none"> <li>• Enter \$650 if you <u>cannot</u> be claimed as a dependent by someone else</li> <li>• Enter zero if you <u>can</u> be claimed as a dependent by someone else</li> </ul> <p>1040EZ / TELEFILE MARRIED FILING JOINTLY filers</p> <ul style="list-style-type: none"> <li>• Enter \$1300 if neither spouse can be claimed as a dependent by someone else</li> <li>• Enter \$650 if one spouse can be claimed as a dependent by someone else</li> <li>• Enter zero if both spouses can be claimed as dependents by someone else</li> </ul> <p>IMPORTANT: If you were not required to complete the Deduction for Exemptions Worksheet in the instructions for Federal Form 1040, STOP HERE and enter this amount on line 30, page 2 of Form D-400. Otherwise, complete lines 3, 4, and 5.</p> <p style="text-align: right; margin-right: 20px;">2 _____</p> <p>3 Enter the decimal amount from line 7 of the Deduction for Exemptions Worksheet in the instructions for Federal Form 1040 ..... 3 <u>    </u> ● _____</p> <p>4 Multiply line 2 above by line 3 above and enter the result ..... 4 _____</p> <p>5 Subtract line 4 above from line 2 above and enter the result here and on line 30, page 2 of Form D-400 ..... 5 _____</p>
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## Line 31 - INTEREST INCOME

Enter the amount of interest received from notes, bonds, and other obligations of states and political subdivisions other than North Carolina if not included in federal taxable income. This includes exempt interest dividends received from regulated investment companies (mutual funds) to the extent such dividends do not represent interest from obligations of North Carolina or its political subdivisions.

## Line 32 - LUMP-SUM DISTRIBUTIONS

If you elected to exclude a lump-sum distribution from an employee's retirement plan from your regular federal income tax computation and computed the tax separately using the ten-year or five-year forward averaging rules, enter the amount of the lump-sum distribution.

## Line 33 - OTHER ADDITIONS TO FEDERAL TAXABLE INCOME

The fair market value (not to exceed \$400,000) of real property donated for conservation purposes and/or the market price of donated gleaned crops for which an individual income tax credit(s) was claimed on the North Carolina return must be added to federal taxable income.

The amount of federal estate tax that is attributable to income in respect of a decedent and that is deducted under Section 691(c) of the Internal Revenue Code must be added to federal taxable income.

The following additions to federal taxable income are transitional adjustments required because of differences in the way State and federal law treated certain tax transactions prior to January 1, 1989. The adjustments do not apply to all taxpayers; however, you should carefully review the following to determine if any of the adjustments apply to your return.

- Amounts that were included in the cost basis of property under federal law but not under State law prior to January 1, 1989. These amounts must be added to your taxable income in the year that your income includes a gain or loss from the sale or other disposition of the property.
- A loss or a deduction incurred or paid in a tax year prior to January 1, 1989, that was deducted in full on your State return or for which a carry-forward to a subsequent year was not allowed under prior State law but is carried forward and deducted from your federal taxable income for 1997, must be added to your federal taxable income in arriving at the amount of your North Carolina taxable income. In this situation the taxpayer must add back any part of the loss deducted from his 1997 federal taxable income in arriving at the amount of his North Carolina taxable income. In determining the amount of a capital loss to add back, short-term capital losses from taxable years beginning prior to January 1, 1989, must be applied before applying short-term capital losses incurred in taxable years beginning on or after January 1, 1989, and before applying long-term capital losses from any year. Long-term capital losses from taxable years beginning prior to January 1, 1989, must be applied before applying long-term capital losses incurred in taxable years beginning on or after January 1, 1989.

# LINE INSTRUCTIONS

• Amounts deducted on your federal return as net operating losses brought forward from tax years beginning prior to January 1, 1989, must be added to your federal taxable income. For tax years prior to January 1, 1989, State law allowed a net economic loss to be carried forward to subsequent years which was computed differently from the federal net operating loss. Prior State law did not permit the loss to be carried back to prior tax years as did federal law.

• If you recovered all or any portion of your contributions to an annuity for State income tax purposes for taxable years beginning prior to January 1, 1989, but such amount was not recovered for federal income tax purposes, you must include a ratable portion of the difference in the cost previously recovered for North Carolina purposes and the amount previously recovered for federal purposes on the North Carolina return for each tax year beginning on or after January 1, 1989. The ratable portion to be added to federal taxable income is determined as follows:

$$\frac{\text{Amount recovered on State return} - \text{Amount recovered on Federal return}}{\text{Remaining Years Life Expectancy}} = \text{Addition to Taxable Income}$$

The difference in the cost recovered for State and federal purposes should reflect only the cost recovered during your period of residence in North Carolina and exclude any cost recovered during the period you resided in another state. The amount figured as a transitional adjustment will remain the same for each year of your remaining life expectancy.

Note: If any portion of your cost that was recovered for federal income tax purposes for taxable years beginning prior to January 1, 1989, is greater than the cost recovered for State income tax purposes for years prior to 1989, you are entitled to deduct a ratable portion of that cost as a transitional adjustment on line 40. The ratable portion to be deducted is determined as follows:

$$\frac{\text{Amount recovered on Federal return} - \text{Amount recovered on State return}}{\text{Remaining Years Life Expectancy}} = \text{Deduction from Taxable Income}$$

• If you qualified and elected to report your child's unearned income on your federal return, you included only the child's unearned income in excess of \$1,300 in your federal taxable income. The difference in the child's standard deduction of \$500 and the amount of his income not included in your federal taxable income must be added to your federal taxable income in figuring your North Carolina taxable income.

Example 1: Tommy, age 8, received \$800 in interest and dividends in 1997. He had no other income.

Tommy's unearned income	\$800
Amount included in parents' federal income	0
Amount not included in parents' federal income	\$800
Tommy's standard deduction	500
Addition to federal taxable income on parents' return	\$300

Example 2: Susan, age 10, received \$1,700 in interest income in 1997. She had no other income. Her parents include \$400 (\$1,700-\$1,300) of her income in their federal taxable income. In figuring their State taxable income, Susan's parents must add \$800 to federal taxable income in figuring their North Carolina taxable income.

Susan's unearned income	\$1,700
Amount included in parents' federal income	400
Amount not included in parents' federal income	\$1,300
Susan's standard deduction	500
Addition to federal taxable income on parents' return	\$800

## DEDUCTIONS FROM FEDERAL TAXABLE INCOME

### Line 35 - STATE INCOME TAX REFUND

Enter the amount of any state or local income tax refund included on line 10 of your federal return, Form 1040.

### Line 36 - INTEREST FROM NORTH CAROLINA AND UNITED STATES OBLIGATIONS

Enter the amount of interest on obligations of the State of North Carolina, its political subdivisions and nonprofit educational institutions organized or chartered under North Carolina law if included in federal taxable income. Also include interest received from notes, bonds and other obligations of the United States (such as U.S. savings bonds, treasury notes and bills, etc.) or its possessions.

### Line 37 - TAXABLE PORTION OF SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS

Social security and railroad retirement benefits are not subject to State income tax. Enter any Title 2 social security benefits received under the Social Security Act and any Tier 1 or Tier 2 railroad retirement benefits received under the Railroad Retirement Act that were included in federal taxable income. Railroad Retirement Act benefits include railroad unemployment insurance benefits and railroad sickness benefits.

### Line 38 - OTHER RETIREMENT BENEFITS

You may deduct a portion of other retirement benefits included in federal taxable income. Retirement benefits are amounts paid by an employer to a former employee or to a beneficiary of a former employee under a written retirement plan established by the employer to provide payments to an employee or beneficiary after the employee ends employment with the employer where the right to receive the payments is based upon the employment

relationship. For self-employed individuals, retirement benefits are amounts paid to an individual (or beneficiary) under a written retirement plan established by the individual to provide payments after self-employment ends. Retirement benefits also include amounts received from an individual retirement account or from an individual retirement annuity (IRA) and long-term disability benefits received under the Disability Income Plan of North Carolina. Retirement benefits do not include short-term disability benefits from the Disability Income Plan of North Carolina or distributions paid to an employee from an employer's retirement plan because of a change in the structure of a corporate employer.

Federal, State, and Local Government Retirement Benefits. If you received retirement benefits from one or more federal, state, or local government retirement plans, you may deduct the amount included in federal taxable income or \$4,000, whichever is less. Married individuals filing a joint return where both received such retirement benefits may each deduct up to \$4,000 for a potential deduction of \$8,000.

Private Retirement Benefits. If you received retirement benefits from one or more private retirement plans other than federal, state, or local government retirement plans, you may deduct the amount included in federal taxable income or \$2,000, whichever is less. Married individuals filing a joint return where both received such retirement benefits may each deduct up to \$2,000 for a potential deduction of \$4,000.

The total retirement benefits deduction may not exceed \$4,000 per taxpayer. For married couples filing a joint return where both spouses received retirement benefits, the deduction applies separately to each, so that the maximum deduction on a joint return is \$8,000.

If you included retirement benefits in federal taxable income, complete the RETIREMENT BENEFITS DEDUCTION WORKSHEET below and enter the result on line 38, page 2, Form D-400.

RETIREMENT BENEFITS DEDUCTION WORKSHEET	
	You                      Your Spouse
1. Enter the federal, state, or local government retirement benefits included in federal taxable income (not to exceed \$4,000 for each taxpayer who received government retirement benefits) .....	1. _____
2. Enter the private retirement benefits included in federal taxable income (not to exceed \$2,000 for each taxpayer who received retirement benefits) .....	2. _____
3. Add lines 1 and 2 and enter the total here (not to exceed \$4,000 for each taxpayer) .....	3. _____
4. Add the amounts on line 3 and enter the total here and on line 38, page 2, Form D-400 .....	4. _____

## LINE INSTRUCTIONS

### Line 39 - FEDERAL MORTGAGE INTEREST TAX CREDIT DEDUCTION AND/OR OTHER FEDERAL TAX CREDITS FOR WHICH DEDUCTIONS WERE REDUCED

You may deduct the amount by which any federal income tax deduction is disallowed because of the allowance of a federal income tax credit for part or all of the expense comprising the deduction to the extent that a similar State income tax credit is not allowed. For example, if you itemized your deductions and claimed the mortgage interest tax credit on your federal return because you participated in the mortgage credit certificate (MCC) program, enter the amount from line 3 of Federal Form 8396. If you elected to claim other federal income tax credits in lieu of deductions otherwise allowed, include the amount by which the deductions were reduced due to claiming the tax credits on your federal return. Attach a schedule to your return to explain the amount entered.

### Line 40 - OTHER DEDUCTIONS FROM FEDERAL TAXABLE INCOME

You may deduct up to \$35,000 of any severance wages you received as a result of the permanent closure of a manufacturing or processing plant.

You may deduct the amount of North Carolina inheritance tax paid that was attributable to an item of income in respect of a decedent. The deduction is determined by multiplying the amount of inheritance tax paid on all property transferred to you, less the North Carolina inheritance tax which would have been paid if the item of income in respect of a decedent had not been included, by a fraction, the numerator of which is the income in respect of a decedent you included in federal taxable income, as adjusted, and the denominator of which is the total income in respect of a decedent transferred to you.

Interest on obligations and gain from the sale or disposition of obligations issued before July 1, 1995, should be deducted from taxable income if the law under which the obligations were issued specifically exempts the interest or gain (Examples: Obligations of the N. C. Housing Finance Agency, Joint Municipal Electric Power and Energy Act, and N. C. Educational Facilities Finance Agency).

The following deductions from federal taxable income are transitional adjustments required in conforming State law to the Internal Revenue Code because of differences in the way State and federal law treat-

ed certain tax transactions prior to January 1, 1989. The adjustments do not apply to all taxpayers; however, you should carefully review the following to determine if any of the adjustments apply to your return:

- Amounts that were included in the basis of property under State law but not under federal law prior to January 1, 1989, must be deducted from your taxable income in the year that your income includes a gain or loss from the sale or other disposition of the property. This includes certain business expenditures that you elected to expense under Section 179 of the Internal Revenue Code but which were required to be capitalized for State income tax purposes.
- See the line instructions for line 33 to determine the deduction for the difference in the cost of an annuity previously recovered for North Carolina and federal tax purposes when the cost recovered for federal purposes for taxable years beginning prior to January 1, 1989, is greater than the cost recovered for State purposes for years prior to 1989.

## COMPUTATION OF NORTH CAROLINA TAXABLE INCOME FOR PART-YEAR RESIDENTS AND NONRESIDENTS

Line 42 - PART-YEAR RESIDENTS	Line 43 - NONRESIDENTS	Line 45
<p>Complete the worksheet below to determine the amount to be entered on line 42:</p> <p>1 Enter your TOTAL INCOME from your federal return (Form 1040, line 22; Form 1040A, line 14; Form 1040EZ, line 4; or TeleFile Tax Record, line H) that you received in 1997 while you were a resident of North Carolina 1 _____</p> <p>2 Enter the amount from line 34 of Form D-400 that applies to the income received while you were a resident of North Carolina (See Note A below) ..... 2 _____</p> <p>3 Add lines 1 and 2 ..... 3 _____</p> <p>4 Enter the amount from line 41 of Form D-400 that applies to the income received while you were a resident of North Carolina (See Note B below) ..... 4 _____</p> <p>5 Subtract line 4 from line 3 and enter the total here and on line 42 of Form D-400 ..... 5 _____</p>	<p>Complete the worksheet below to determine the amount to be entered on line 43:</p> <p>1 Enter your TOTAL INCOME from your federal return (Form 1040, line 22; Form 1040A, line 14; Form 1040EZ, line 4; or TeleFile Tax Record, line H) that you received from North Carolina sources in 1997 while you were a nonresident of North Carolina 1 _____</p> <p>2 Enter the amount from line 34 of Form D-400 that applies to the income received from North Carolina sources while you were a nonresident of North Carolina (See Note A below) ..... 2 _____</p> <p>3 Add lines 1 and 2 ..... 3 _____</p> <p>4 Enter the amount from line 41 of Form D-400 that applies to the income received from North Carolina sources while you were a nonresident of North Carolina (See Note B below) ..... 4 _____</p> <p>5 Subtract line 4 from line 3 and enter the total here and on line 43 of Form D-400 ..... 5 _____</p>	<p>Complete the worksheet below to determine the amount to be entered on line 45:</p> <p>1 Enter your TOTAL INCOME from your federal return (Form 1040, line 22; Form 1040A, line 14; Form 1040EZ, line 4 or TeleFile Tax Record, line H) ... 1 _____</p> <p>2 Enter the amount from line 34 of Form D-400 (See Note A below) 2 _____</p> <p>3 Add lines 1 and 2 ..... 3 _____</p> <p>4 Enter the amount from line 41 of Form D-400 (See Note B below) 4 _____</p> <p>5 Subtract line 4 from line 3 and enter the total here and on line 45 of Form D-400 ..... 5 _____</p> <p><b>Line 46</b></p> <p>Divide line 44 by line 45 and enter the result as a decimal amount on line 46. Round to two decimal places. Enter the decimal amount from line 46 on line 11a, page 1 of the return. (The decimal amount can be more than 1.00)</p>

NOTE A: The amount to be entered on line 2 does not include the amounts on line 29 or 30 or any portion of the amount on line 33 that does not relate to gross income.

NOTE B: The amount to be entered on line 4 does not include the amount on line 39 or any portion of the amount on line 40 that does not relate to gross income.

**Tax Paid to Another State/Country**

When income is taxed by North Carolina for a period during which you were a legal resident of North Carolina and the same income is also taxed by another state or country because it was earned in or derived from sources within that state or country, a tax credit may be claimed, but not on the basis of a withholding statement alone. Attach a copy of the return filed with the other state or country and a copy of the check or receipt if a balance of tax was paid with the return.

Complete the North Carolina return and include all income both within and outside the State. Compute the tax as though no credit is to be claimed. Complete Part I of Form D-400TC to determine the allowable tax credit. The amount entered on line 1, Part I of Form D-400TC is total income (from Federal Form 1040, line 22; 1040A, line 14; 1040EZ, line 4; or TeleFile Tax Record, line H) while a resident of North Carolina, adjusted by the applicable additions and/or deductions to federal taxable income that you listed on page 2, Form D-400. Attach the form to your tax return with a copy of the tax return filed with the other state and proof of the payment.

Include on Line 2, Part I of Form D-400TC your share of any S Corporation income that is attributable to and taxed by another state, whether or not the other state taxed the income at the individual or corporate level. Include the tax you paid another state on your share of S Corporation income or your pro rata share of the corporate tax paid by the S Corporation to another state that taxes the corporation rather than the shareholder on Line 6, Part I, Form D-400TC. Attach a schedule to your return showing the total amount of tax paid to the other state by the S Corporation, and how your pro rata share of the tax was determined.

**Credit for Child and Dependent Care Expenses**

If you claim an income tax credit for child and dependent care expenses on your federal return, you may claim a tax credit for such expenses on your North Carolina return. For dependents who were age seven or older and not physically or mentally incapable of caring for themselves, the credit is from 7 percent to 9 percent of the federal employment-related expenses, depending on your filing status and federal adjusted gross income. For dependents who were under the age of seven and dependents who were physically or mentally incapable of caring for themselves, the tax credit is from 10 to 13 percent of the qualified federal employment-related expenses, depending on your filing status and your federal adjusted gross income. The federal employment-related expense is shown on line 3 of Federal Form 2441 or on Schedule 2, Part II, line 3 of Federal Form 1040A. If applicable, include on line 8, Part II, Form D-400TC, any qualified expenses for 1996 that you paid in 1997. The total amount shown on line 8, Part II of Form D-400TC cannot exceed \$2,400 for one dependent or \$4,800 for two or more dependents.

If you were a resident of North Carolina and your spouse was a nonresident, you may not claim credit for any employment-related expenses paid by your spouse. If you were a nonresident of North Carolina during any part of the year, you must reduce the employment-related expenses by the amount you paid during the period you were a nonresident.

**Credit For Children**

You may claim an income tax credit of \$60 for each dependent child for whom you were allowed to deduct a personal exemption on your federal return if your federal adjusted gross income (Form 1040, line 32; or Form 1040A, line 16) is less than the amount shown for your filing status in the chart below.

Filing Status	Adjusted Gross Income
Married filing jointly	\$100,000
Head of Household	\$ 80,000
Single	\$ 60,000
Married filing separately	\$ 50,000

The credit for children can be claimed only for a child who was under 19 years of age on the last day of the year or for a student under the age of 24 on the last day of the year for whom you furnished more than 50 percent of the support. A child is a son, stepson, daughter, stepdaughter, or legally adopted child for whom you provided more than half of the support for the taxable year. The credit is also allowed for a foster child if the child lived with you for the entire year and you provided care for the child as your own child.

Complete Part III of Form D-400TC to determine the allowable credit.

**Credit for Disabled Taxpayer, Dependent, and/or Spouse**

If you claimed an income tax credit on your federal tax return for being permanently and totally disabled, you are entitled to a tax credit on your North Carolina return equal to one-third (1/3) of the amount of the federal tax credit. Although the federal tax credit is also allowed for being 65 or older, no portion of the tax credit is allowed on the North Carolina return for being age 65 or older.

You may also be entitled to a tax credit if a dependent or spouse for whom you are allowed an exemption on your federal return is permanently and totally disabled. To qualify for the credit, a statement from a physician or local health department must be attached to your return certifying that the dependent was unable to engage in any substantial gainful activity by reason of a physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months.

A nonresident or part-year resident is allowed the tax credit in the proportion that federal taxable income (as adjusted) is taxable to North Carolina.

The allowable credit is determined by completing Form D-429, Worksheet for Determining Tax Credit for Disabled Taxpayer, Dependent, and/or Spouse.

Contact the Department for the form.

**Credit for Tax Paid on Federal Retiree Pension Benefits**

If you were entitled to a tax credit for the net pension tax you paid on your federal retirement benefits received during 1985 through 1988, one-third (1/3) of the credit should have been claimed on your 1996 income tax return. You may claim the second installment (1/3 of the total credit) by entering it on line 27, Part V of Form D-400TC. (Claim the same amount that you entered on line 29, Part IV for 1996.)

If your tax liability is less than the allowable installment in any of the tax years 1996 through 1998, the unused portion of the installment may be carried forward and claimed on your 1999 and/or 2000 returns. In the case of a federal retiree who died in 1996 but did not qualify for the one-time refund, the first installment of the credit was allowable on the retiree's 1996 return. The remaining installments may be claimed by the surviving spouse on the spouse's 1997 and 1998 returns. The surviving spouse may also carry forward any unused portions of the credit to the 1999 and/or 2000 returns. When there is no surviving spouse, the representative of the federal retiree's estate may claim the credit on the fiduciary return if one is required to be filed. However, any unused portion of an installment may not be carried forward to the 1999 or 2000 fiduciary return.

**Credit for Business Investments**

A tax credit is allowed for qualifying investments in the equity securities or subordinated debt of a qualified business venture, a qualified grantee business, or a North Carolina Enterprise Corporation. The credit is 25 percent of the amount invested or \$50,000, whichever is less. The tax credit is not allowed for the year in which the investment is made but is allowed for the taxable year beginning during the calendar year following the calendar year in which the investment was made. Your basis in the equity securities or subordinated debt acquired as a result of your investment must be reduced by the amount of allowable credit.

To be eligible for the tax credit, Form D-499, Application for Tax Credit for Qualified Business Investments, must be filed in duplicate with the Secretary of Revenue on or before April 15 of the year following the calendar year in which the investment was made. The date set for filing the application may be extended provided you furnish a written statement by April 15 requesting that you be allowed additional time in which to file the application. However, the date for filing the application may not be extended beyond September 15. An extension of time to file your individual income tax return (Form D-400) does not extend the time for filing Form D-499. See page 2 of Form D-499 for additional rules and regulations for claiming the credit.

The allowable credit should be shown on Line 28, Part V of Form D-400TC - Tax Credits. Any unused credit may be carried forward for the next succeeding five years.

# INFORMATION FOR CLAIMING TAX CREDITS - FORM D-400TC

## Credit for Charitable Contributions

If you claimed the standard deduction on your federal return, you may claim a tax credit for charitable contributions. The allowable credit equals 2 3/4 percent of the amount by which your charitable contributions for the taxable year exceed 2 percent of your federal adjusted gross income. The credit may not be claimed for contributions for which the credit for certain real property donations or the credit for gleaned crops is claimed. A nonresident or part-year resident may claim a prorated credit equal to the percentage of income that is subject to North Carolina tax. The credit may not exceed the tax liability for the tax year, reduced by other tax credits, and may not be carried forward to future tax years.

If you are filing Form D-400, complete Part IV of Form D-400TC to determine the allowable credit. If you are filing Form D-400EZ, complete the worksheet below to determine the allowable credit.

WORKSHEET FOR DETERMINING TAX CREDIT FOR CHARITABLE CONTRIBUTIONS (For D-400EZ filers only)	
1. Enter the amount of your charitable contributions for the taxable year .....	1. _____
2. Enter your federal adjusted gross income from your federal return (Form 1040, line 32; Form 1040A, line 16; Form 1040EZ, line 4; or TeleFile Tax Record, line H) .....	2. _____
3. Multiply line 2 by 2% (.02). If less than zero, enter - 0 - .....	3. _____
4. Subtract line 3 from line 1. If line 3 exceeds line 1, enter - 0 - here. ....	4. _____
5. Credit for charitable contributions (Multiply line 4 by 2 3/4% (.0275). Enter the result here and on line 8 of the TAX CREDITS WORKSHEET, page 2 of Form D-400EZ) .....	5. _____
(Keep for your records)	

## Credit for Investing in Business Property

You may claim a tax credit equal to 4 1/2 percent [.045] of the cost of business property that you purchased (or leased) and placed in service in North Carolina on or after August 1, 1996. Business property is tangible personal property that is used by a taxpayer in connection with a business or for the production of income and is capitalized for federal income tax purposes. The cost of property recovered under section 179 of the Internal Revenue Code does not qualify for the credit. The maximum credit is \$4,500 and is allowed in five equal installments beginning with the year the property is placed in service. If the property is disposed of, taken out of service or moved out of state in that five year period, the remaining installments cannot be claimed. The credit is not allowable if you claim a credit for investing in machinery and equipment for the same property.

You may not claim the credit for business property that is leased from another person unless you have written certification from that person that he will neither capitalize the property on his federal income tax return nor claim the credit with respect to the same property. The credit cannot exceed 50 percent of the tax for the taxable year, reduced by the sum of all tax credits. This limitation applies to the cumulative amount of credit, including carryforwards. Any unused portion of the credit may be carried forward for the next succeeding five years.

The allowable credit should be shown on line 34b, Part V of Form D-400TC.

WORKSHEET FOR DETERMINING CREDIT FOR INVESTING IN BUSINESS PROPERTY	
1. Multiply the cost of business property (from line 34a, Part V of Form D-400TC) by 4.5% (.045) .....	1. _____ \$4,500
2. Maximum amount .....	2. _____
3. Enter the lesser of line 1 or 2 .....	3. _____
4. Multiply line 3 above by 20% (.20) .....	4. _____
5. Current installment(s) of tax credit for investments in previous years .....	5. _____
6. Carryover from previous year, if any .....	6. _____
7. Add lines 4, 5, and 6 .....	7. _____
8. Enter 1997 tax liability, less tax credits (lines 12, Form D-400 minus line 33, Part V, Form D-400TC) .....	8. _____
9. Enter one-half of the amount on line 8 above .....	9. _____
10. Enter the lesser of line 7 or line 9 here and on line 34b, Part V of Form D-400TC	10. _____

NOTE: If line 7 exceeds line 9, the excess may be carried forward to your 1998 return.

## Other Tax Credits

State law provides for the following tax credits in addition to the tax credits explained above: Creating Jobs, Property Taxes on Farm Machinery, Using North Carolina Ports, Solar Energy Equipment, Donating Real Property for Certain Public and Conservation Purposes, Construction of Dwelling Units for Handicapped Persons, Purchase of Conservation Tillage Equipment, Fuel Ethanol Distillery, Conversion of Industrial Boiler, Gleaned Crops, Hydroelectric Generator, Solar Energy for Production of Heat or Electricity, Wind Energy Device, Methane Gas, Rehabilitating an Historic Structure, and Poultry Composting.

For further information about these credits, contact the Department of Revenue.

## Business Incentive Tax Credits

The following business incentive tax credits are available to new and expanding businesses. If you believe you are entitled to one or more of the tax credits, contact the Department of Revenue for additional information.

- Credit for creating jobs (G. S. 105-129.8) - provides an expanded credit for each new job created by eligible employers who have at least five full-time employees working 40 or more weeks during the year.

- Credit for investing in machinery and equipment (G. S. 105-129.9) - provides a credit of 7% of the excess value of the cost, determined pursuant to regulations adopted under section 1012 of the Internal Revenue Code, of machinery and equipment placed in service in North Carolina by new and expanding businesses.

- Credit for research and development (G. S. 105-129.10) - provides a credit equal to 5% of the State's apportioned share of expenditures for increasing research activities. This credit was effective for expenditures made on or after July 1, 1996.

- Credit for worker training (G. S. 105-129.11) - provides a credit of 50% of eligible expenditures to taxpayers who are eligible for the credit for creating jobs or the investment tax credit and who provided training for five or more employees.

- Credit for investing in central administrative office (G. S. 105-129.12) - provides a credit equal to 7% of the eligible investment amount of purchased or leased real property that the taxpayer begins to use as a central administrative office during the taxable year.

# 1997 Tax Rate Schedule

Caution: Use ONLY if your taxable income (Form D-400, Line 11b) is \$50,000 or more. If less, use the Tax Table.

## TAX RATE SCHEDULE

If your filing status is	And the amount on line 11b is more than	But note over	The Tax is
Single	\$ 0	\$ 12,750	6% of the amount on line 11b
	\$ 12,750	\$ 60,000	\$765 + 7% of the amount over \$12,750
	\$ 60,000		\$4,072.50 + 7.75% of the amount over \$60,000
Head of Household	\$ 0	\$ 17,000	6% of the amount on line 11b
	\$ 17,000	\$ 80,000	\$1,020 + 7% of the amount over \$17,000
	\$ 80,000		\$5,430 + 7.75% of the amount over \$80,000
Married Filing Jointly or Qualifying Widow(er)	\$ 0	\$ 21,250	6% of the amount on line 11b
	\$ 21,250	\$100,000	\$1,275 + 7% of the amount over \$21,250
	\$100,000		\$6,787.50 + 7.75% of the amount over \$100,000
Married Filing Separately	\$ 0	\$ 10,625	6% of the amount on line 11b
	\$ 10,625	\$ 50,000	\$637.50 + 7% of the amount over \$10,625
	\$ 50,000		\$3,393.75 + 7.75% of the amount over \$50,000

## REMINDERS

- Double-check your figures, including your social security number. Accuracy speeds processing of your tax return.
- Check the same filing status you checked on your federal return. If you do not include your filing status by checking one of the boxes, processing of your return may be delayed.
- Sign and date your return. If you file a joint tax return, both you and your spouse must sign the return.
- Attach original State copies of all wage and tax statements.

## MAINTAINING RECORDS

You should keep canceled checks, receipts, or other documentation, including a copy of your federal return, to verify any amount entered on your tax return for a period of at least three years from the due date of the return or three years from the date the return is filed, whichever is later. Lack of adequate records may result in the disallowance of all or part of the deductions. Your canceled check, money order stub, or Departmental receipt showing payment of tax should be kept for at least five years from the due date of the tax return.

## TAX FRAUD HOTLINE

1-800-232-4939

(733-6354 in Wake County)

The Department of Revenue provides a toll-free number for citizens who wish to report instances of tax fraud. The number is 1-800-232-4939 (8:00 a.m. to 5:00 p.m., Monday through Friday, except holidays). Caller identification is not required.

## USE TAX ON OUT-OF-STATE PURCHASES

If you purchased taxable merchandise out of state for use in North Carolina, you may be liable for a use tax on the amount of the purchase. A use tax is similar to a sales tax. Additional information about the tax and how it may be paid is explained on page 19. Information can also be obtained by calling Taxpayer Assistance in Raleigh at (919) 733-3661 (not toll-free).